COST SAVINGS: PAYDOWN OF DEBT

PRESENTED BY:

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Approval Requested

OBJECTIVE & TAKEAWAY

- SHARE COST SAVINGS IMPACT OF DEBT PAYDOWN
- OBTAIN APPROVAL

AGENDA

- BACKGROUND
- TARGETED DEBT
- DEBT SERVICE PROFILE
- METRICS RESULTS
- REQUEST APPROVAL

PAYDOWN OF DEBT

- We proactively look for opportunities to paydown debt to provide savings & improve our financial position
- Last paydown of debt occurred in January 2019 -

  ~$103M ($77.6M in Bonds, $25.2M Flex Rate Revolving Note)

PAYDOWN OF DEBT
WHY CONSIDER NOW?

- Opportunity to effectively use cash to paydown our debt portfolio:
  - ✓ Provides ~ **<u>$6.8M in interest savings (FY 21-25)</u>**; FY20 increased expense through escrow account
  - ✓ Shaves Debt Service peak
  - ✓ Benefits financial metrics in targeted years

We have the opportunity to provide additional savings for our customers & improve future financial metrics!

PAYDOWN OF DEBT
TARGETED DEBT

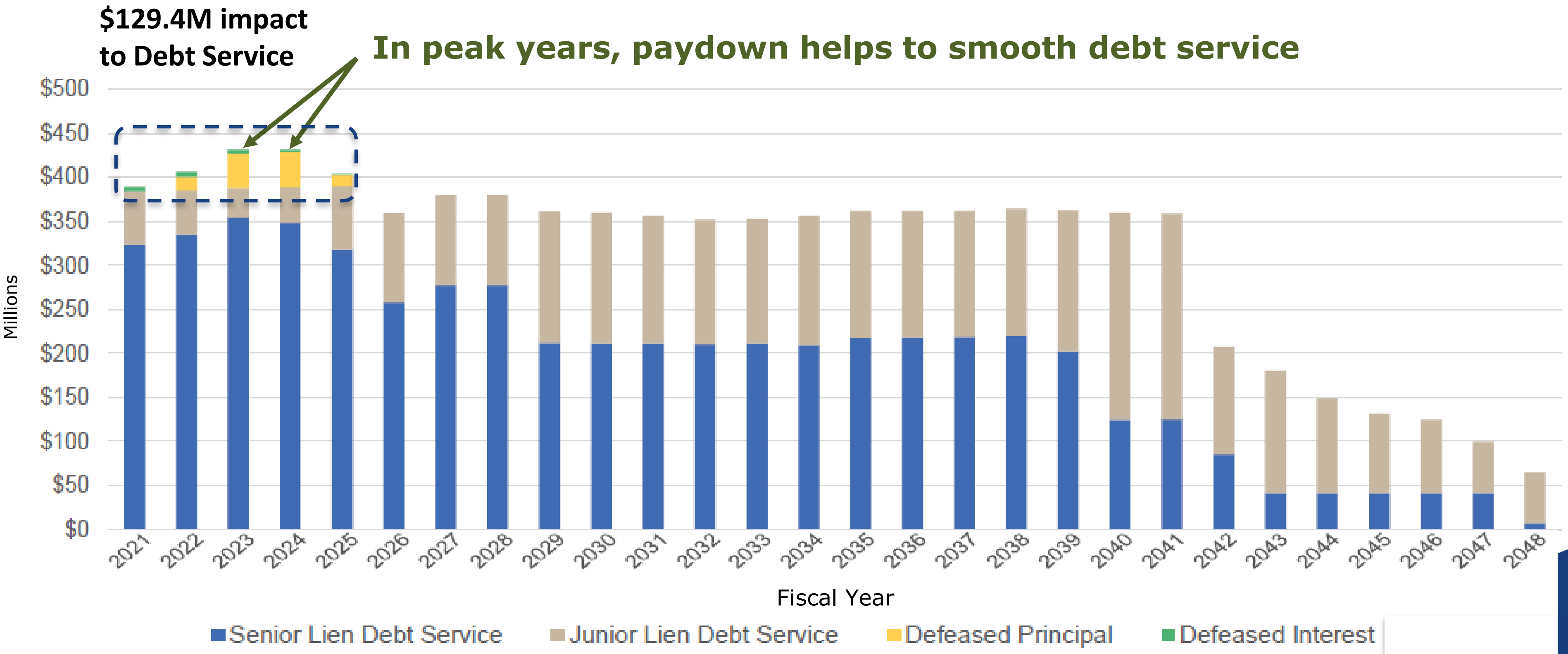
PROPOSED PAYDOWNS[1]							
Impacted FY	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**	**Total**
2016 Refunding Bonds	---	---	$16.0	$39.0	$40.0	$13.0	**$108.0**

We are proposing to pay down ~$108M in principal maturing thru FY25. Including interest payments, the total required to paydown the debt is ~$125M. Execution is planned to occur in January 2020[2].

(1) $s in millions.
(2) Contingent upon Board approval. Does not require City Council approval.

DEBT SERVICE PROFILE

In peak years, paydown helps to smooth debt service



PROJECTED FINANCIAL RESULTS

Metric	Threshold	FY20 Paydown Impact	FY20 Metrics after Paydown[1]
Adjusted Debt Service Coverage (ADSC)	> 1.50x	Modestly Lower, Yet Still Very Healthy	1.89x
Days Cash on Hand (DCOH)	> 150 days	Lower, Yet Still Healthy	205
Debt-to-Capitalization	Long range <= 60%	Directionally Correct & Lower	61.1%

This strategy will provide us ~$6.8M in interest savings over the next 5 years & can help improve ADSC metrics in the years we target paydown.

(1) Results are based on October forecast & include impact of paydown of debt.
(2) Savings are based upon paying down ~$108 million of principal.

REQUEST FOR APPROVAL

Approve a resolution that gives authority to the President & CEO or the CFO & Treasurer to execute the paydown/defeasance of bonds & related documents:

- Up to $125M
- At the Sr. Lien or Jr. Lien level
- Until January 31, 2020

Thank You

Appendix

CASH DEFEASANCE
MECHANICS OF PAYDOWN

- CPS Energy identifies specific bonds to be paid down.
- With cash, we bid out & fund an escrow that will invest in US Treasuries / Agencies, sufficient to pay for principal & interest to the maturity date.
- The escrows, once funded & executed, are irrevocable in nature & the cash cannot be used for any other purpose.
- Bond counsel will provide a defeasance opinion as part of legal documentation, at which point the bonds will be removed from CPS Energy's obligations.